

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: GRACE SEAMAN

DATE: AUGUST 19, 2011

RE: 2011 IDAHO UNIVERSAL SERVICE FUND ANNUAL REPORT AND
RECOMMENDATIONS; CASE NO. GNR-T-11-04.

BACKGROUND

The Idaho Universal Service Fund (USF) rules were adopted under the general legal authority of the Telecommunications Act of 1988, Chapter 6, Title 62, *Idaho Code*, and the specific authority of § 62-610, *Idaho Code*. The Commission established a universal service fund for the purpose of maintaining the universal availability of local exchange service at reasonable rates and to promote the availability of message telecommunications service (MTS) at reasonably comparable rates throughout the state of Idaho. The USF is funded through a statewide end-user surcharge on local exchange services and intrastate MTS and Wide Area Telephone Service (WATS) type services. The USF Administrator, Ms. Anderson, submits an Annual Report to the Commission that details the program activities of the previous year and provides recommended surcharge rates to meet the next year's funding requirements. On or before September 1 of each year the Commission issues an Order in response to the Administrator's report, which will establish statewide end-user surcharges to be in effect for the twelve months beginning October 1 following issuance of the Order.

THE 2010 ANNUAL REPORT

On July 15, 2011, Alyson Anderson, the Administrator of the Idaho USF, filed her Annual Report to the Commission for the period of July 1, 2010 through June 30, 2011. The proposed USF 2011-2012 Administrative Budget is also included in the report. Staff has

reviewed the calculations, supporting documentation, and recommendations contained in the Administrator's Annual Report.

The current USF monthly surcharge rates are \$.12 per residential line, \$.19 per business line, and \$.0035 per intrastate MTS/WTS billed minute, established in Order No. 32058. Ms. Anderson reports surcharge revenue for the year in the amount of \$1,715,397. Local exchange services contributed \$945,111 (55%), and \$770,286 (45%) was contributed by MTS/WATS services. This is a slight decrease in local exchange surcharge revenue of approximately \$12,550 (from \$932,556 in 2010), and a slight decrease in MTS/WATS surcharge revenue of approximately \$31,000 (from \$801,542 in 2010).

The Administrative charges for the year were \$16,340. These charges include Administrator salary, expenses, and bank and brokerage fees.

The annual disbursements to the eight qualifying incumbent local exchange carriers (ILECs) remained unchanged at \$1,698,610. The ending cash balance, after applying bank charges, administrative expenses and interest received was \$104,764. For the next fiscal year, beginning July 1, 2011, the annual disbursements are expected to remain at \$1,698,610, unless the Commission approves changes to the USF funding.

2011-2012 Administrative Budget

Ms. Anderson proposes an annual administrative budget of \$24,100. This amount includes the Administrator's salary, expenses, bank and brokerage fees, and \$7,000 for an audit of the program.

Local Residential and Business Service

As of May 1, 2011, companies reported a monthly inventory of 292,282 residential lines and 221,764 business lines, for a total of 514,046 lines. This is a net decrease in lines of approximately 34,300 (6%) with residential lines decreasing by nearly 11% and business lines increasing by almost 1%.

The newly calculated statewide weighted average rates for one-party single line residential and business service and the corresponding threshold average rates are:

| | 2010 Statewide Weighted Average Rate | 2011 Statewide Weighted Average Rate | 125% Statewide Weighted Average Rate - 2010 | 125% Statewide Weighted Average Rate - 2010 |
|-----------------------------|---|---|--|--|
| Residential Services | \$20.84 | \$21.25 | \$26.06 | \$26.57 |
| Business Services | \$33.07 | \$32.08 | \$41.34 | \$40.10 |

Switched Access Service

Long distance service providers reported intrastate MTS/WATS billed minutes of 253,602,445 compared to the 2010 reported minutes of 284,863,207, an 11% decrease. The statewide average switched access rate remained the same as last year at \$0.05.

Funding Adjustments Review

Ms. Anderson is required to review the residential, business, and switched access rates of the recipient ILEC companies in accordance with Rule 106. To be eligible to receive USF funding pursuant to Rule 106, IDAPA 31.46.01.106, a telephone company's average one-party, single-line rate must equal or exceed the 125% statewide weighted average line rate and the average rates per minute for MTS/WATS access rate must exceed 100% of the statewide weighted average access rate. If the difference in the company's current average rate and the statewide average threshold rate is greater than three percent (3%), and the difference in the annual revenue associated with the company's current rate and the revenue associated with the statewide average threshold rates is over \$6,000, the company may need to revise rates to meet or exceed the statewide threshold rates. Or, pursuant to Rule 106.04, the Commission on its own motion may by Order change a telephone company's USF funding in connection with the recalculation of the statewide average rates.

In this year's analysis, of the eight companies receiving USF funding, the Administrator recommends some adjustments to the residential, business, and access rates per Rule 106. This is discussed in greater detail in Option 2.

ADMINISTRATOR'S OPTIONS

The Administrator reports that over the last several years, there has been a steady decline in both local access lines and intrastate MTS/WATs billed minutes. As a result, it is difficult to estimate the fund balance for the next fiscal year. Ms. Anderson further states that, "with the increased popularity of wireless/cellular services and VoIP services, as well as the decline in the economy, it would stand to reason that the decline in both local access lines and intrastate toll minutes will continue." To determine the funding options, Ms. Anderson adjusted the current inventories by the average percentage decline from the last three years (10% decline in residential lines, a 1.5% decline in business lines, and a 7% decline in MTS/WATs billed minutes) to present the four funding options as follows.

Option 1: Status Quo – Ms. Anderson reports that if current surcharge levels are maintained and no additional USF funding is authorized, the funding will decrease by approximately \$20,400. The 2011-2012 USF authorized disbursements will be \$1,698,610 and the fund balance will be an estimated \$84,400 on June 30, 2012. Surcharge revenue contribution would be approximately 49% from MTS/WATS services and 51% from local exchange services.

Option 2: Adjust Funding to Meet Statewide Averages per Rule 106 and Maintain Surcharge Rates – Idaho USF Rule 106.02 outlines the requirement to continue receiving USF funding after the first year of eligibility. The following applies Rule 106 to each company currently receiving USF funding:

- ATC Communications (ATC) — increase local residential and switched access and decrease local business rates. ATC's annual USF funding would be reduced by \$20,940.
- Cambridge Telephone Company (Cambridge) — increase local residential rates and reduce local business rates. Cambridge's annual USF funding would be reduced by \$6,022.
- Direct Communications Rockland (Direct) — increase local residential rates. Direct's annual USF funding would be reduced by \$8,436.
- Fremont Telecom (Fremont) — increase both local residential and switched access rates and reduce local business rates. Fremont's annual USF funding would be reduced by \$14,283.
- Inland Telephone Company (Inland) — decrease switched access rates. Inland's annual USF funding would be increased by \$15,210.

- Midvale Telephone Company (Midvale) — increase local residential and switched access rates. Midvale's annual USF funding would be reduced by \$19,368.
- Rural Telephone Company (Rural) — increase switched access rates. Rural's annual USF funding would be reduced by \$7,838.
- Silver Star Telecom — no adjustments are necessary.

Under this proposal, Ms. Anderson projects the annual USF disbursements would decrease by \$61,677 from \$1,698,610 to \$1,636,933 and the fund balance on June 30, 2012 would be approximately \$41,300. With this option, MTS/WATS services would contribute 51% of the total surcharge revenue and the local exchange services contribution would be 49%.

Option 3: Maintain Funding Levels and Increase Surcharge Rates – In this scenario, Ms. Anderson considers maintaining the USF funding levels and increasing the surcharge rates to \$.14 per residential line, \$.21 per business line, and \$.004 per intrastate MTS/WATS billed minute. The funding would increase by approximately \$213,100 and the end-of-year balance on June 30, 2012 would be approximately \$317,300. MTS/WATS service would contribute 49% of the surcharge revenue and local exchange services would contribute 51%.

Option 4: Adjust Funding to Meet Statewide Averages Per Rule 106 and Increase Surcharge Rates – In this discussion, Ms. Anderson looks at increasing the surcharge rates to \$.13 per residential line, \$.20 per business line, and \$.004 per intrastate MTS/WATS billed minute as well as adjusting the USF disbursements per Rule 106. MTS/WATS service would contribute 50% and local exchange services would contribute 50%. The funding would increase by approximately \$217,000 and the end-of-year balance would be approximately \$321,200 on June 30, 2012.

ADMINISTRATOR'S RECOMMENDATION

Among the options presented by Ms. Anderson, she recommends that the Commission adopt Option 2; adjusting the USF funding to meet statewide average threshold rates per Rule 106, and maintaining the surcharge rates at \$.12 per residential line, \$.19 per business line, and \$.0035 per intrastate MTS/WATS billed minutes.

STAFF ANALYSIS AND RECOMMENDATION

Ms. Anderson recommends the adoption of Option 2 based on compliance with Rule 106.02 Continuation of Eligibility. Not all USF recipient companies meet both criteria outlined in Rule 106. Of the eight USF funded companies, all have residential rates of \$25.76¹ which is lower than the latest statewide average threshold rate of \$26.57. While the difference is technically greater than 3%, it is only greater by 3.1%. Five of the funded companies (ATC, Cambridge, Direct, Fremont, and Midvale) have a revenue difference greater than \$6,000, and three (Inland, Rural, and Silver Star) are lower than \$6,000. Five of the funded companies meet both criteria for the Commission to require the companies to increase its residential rates and three do not. Staff believes consideration should be given to the factors that have contributed to the increase in the average threshold rate for residential service. A major cause is the result of the deregulated companies increasing residential rates, while offering more competitively-priced bundled services (that include local exchange services). These bundle services are marketed to entice customers into purchasing more services under multi-year agreements. In the last few years, companies have been successful in moving more customers from the standalone residential service to the bundled packages. Yet, the USF annual report does not reflect this activity since the companies are only required to report the standalone residential rate shown in the tariffs and price lists. Staff, therefore, recommends that the Commission delay applying Rule 106 to residential rates this year and instead, reevaluate the impact of Rule 106 on each company in next year's annual report.

Rule 106 allows local exchange service rates to be greater than the statewide threshold rate, and all companies have business service rates greater than the statewide threshold rate of \$40.10. Consequently, Staff believes the current business rates should not to be decreased as recommended by the Administrator.

Finally, Ms. Anderson's calculations suggest that four companies (ATC, Fremont, Midvale and Rural) should increase access rates while one company (Inland) should decrease its access rate. Staff does not agree that the slight adjustments to the switched access rates are warranted at this time. Staff believes the impact of an increase or decrease in access rates is uncertain over a 12-month period. The fluctuation in the number of lines and intrastate

¹ On September 2, 2009, Commission Order No. 30894 was issued notifying the USF recipient companies that residential rates must be increased to the statewide threshold rate of \$25.76 to continue to receive funding. All eight companies complied by increasing the residential rates.

MTS/WATS minutes are unpredictable and it is difficult to discern whether these fluctuations are a result of changes in consumer calling patterns or anomalies in company reporting or the result of some other activity. Likewise, it is difficult to determine the amount of adjustment a company must make to the access rate for the company to stay at or below the threshold of 100% of the statewide weighted average rate.

No other significant changes are anticipated in the coming year that may substantially impact the USF fund. Staff, therefore, recommends that the Commission adopt Option 1, maintain current rates. This option would result in a reserve balance of approximately \$84,365 on June 30, 2012.

COMMISSION DECISION

Does the Commission wish to approve the USF 2011-2012 budget?


Does the Commission wish to adopt the Administrator's recommended Option 2?

Does the Commission wish to approve Staff's recommendation to maintain the current surcharge rates as outlined in Option 1?

Does the Commission wish to approve Staff's recommendation to maintain the current residential and business local exchange rates?

Does the Commission wish to approve Staff's recommendation to maintain the current switched access rates?

Does the Commission wish to adopt a different funding option?


Grace Seaman

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